

Corporate Income Tax Reform – Combined Reporting

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Summary of Presentation on Corporate Income Tax Reform

- **Current Law in New Mexico**
- **Current Law in Other States**
- **Policy Issues**
- **Possible Approaches**
- **Policy Criteria for Evaluating Alternatives**

Current Law in New Mexico

Entities Subject to Tax

- **Corporations**
- **Other entities taxed as corporations under the federal income tax**
 - **Certain partnerships, LLCs, Subchapter S corporations, trusts**
- **Excluded are:**
 - **Insurance companies subject to premiums tax**
 - **Non-profit corporations (unless they have UBIT)**
 - **Pension trusts**
 - **Rural electric cooperatives**
 - **Other business entities (pass-throughs, sole props, estates and most trusts) taxed at individual rates**

Nexus

- **To be subject to tax by New Mexico, entity must:**
 - **Be employed or engaged in the transaction of business in, into or from New Mexico, or**
 - **Derive any income from any property or employment within New Mexico**

Current Law in New Mexico – Continued

Taxable Income

- **Taxable income as defined for federal income tax purposes, with certain additions and subtractions**
- **Additions:**
 - **Interest on non-New Mexico state and local bonds**
 - **Federal NOLs (3 year carryback, 20 year carryforward)**
- **Subtractions:**
 - **Interest on federal bonds (and New Mexico state and local bonds subject to federal income tax)**
 - **State NOLs (no carryback, 5 year carryforward)**
 - **Dividends from foreign corporations (including “gross-up”; percentage based on ownership)**

Current Law in New Mexico – Continued

Reporting Methods

- **Separate Corporate Entity (SCE)**
 - **This is the default reporting method, unless taxpayer elects combined or consolidated**
- **Combined**
 - **Can be elected by “unitary” corporations**
 - **Requires common owner holding more than 50% interest in each corporation**
 - **Also requires at least one of the following conditions:**
 - **Unity of operations (central purchasing, advertising, accounting or other services)**
 - **Centralized management or executive force and centralized system of operation**
 - **Interdependent operations or intra-group contributions of property or services**
 - **Once elected, taxpayer cannot file as SCE without permission from the Secretary of TRD**
- **Consolidated**
 - **Follows federal rules (requires 80% ownership by common parent)**
 - **Once elected, taxpayer cannot file as SCE or combined without permission from the Secretary of TRD**

Current Law in New Mexico – Continued

Allocation and Apportionment

- **Corporations with income from sources outside New Mexico must allocate and apportion their income to New Mexico and non-New Mexico sources**
 - **New Mexico’s rules follow the Uniform Division of Income for Tax Purposes Act (UDITPA)**
- **Allocation is used to assign the source of “non-business” income**
 - **Dividends, interest, rents, royalties, and gain or loss on the sale of assets that are not from the regular course of the taxpayer’s trade or business**
 - **Non-business dividends and interest are allocated to the state of domicile**
 - **Non-business rents, royalties, and gain or loss on the sale of assets are allocated to where the property is used, or to the state of domicile if the income is not taxed where the property is used**
- **Apportionment is used to assign the source of business income**
 - **Apportionment is generally by a 3-factor formula based on property, payroll, and sales**
 - **Each factor is the ratio of the New Mexico amount to the total amount for the taxpayer, and the three ratios are then added and divided by 3 to get the apportionment percentage**
 - **Until 2011, manufacturers can elect to use a 4-factor formula that double weights the sales factor**
 - **Property is the original cost of real and tangible personal property owned or rented, sited where used**

Current Law in New Mexico – Continued

Allocation and Apportionment -- Continued

- **Payroll is total compensation paid to employees, sited generally to where the employee works**
- **Sales are the total receipts from transactions and activities in the regular course of a taxpayer's trade or business**
 - **Sales of tangible personal property are sited to where it is delivered or shipped, except sales not taxable where the personal property is delivered or shipped and all sales to the U.S. government are considered sited in New Mexico**
 - **Sales of other property are sited where the income-producing activity, or the preponderance of such activity, occurs**
- **The Secretary of TRD has the authority to permit or require changes in the allocation and apportionment rules if they do not fairly represent the taxpayer's business activity in New Mexico**
- **By regulation, special rules are provided for construction contractors, railroads, airlines, trucking companies, financial institutions, television and radio stations, and publishing**

Current Law in New Mexico – Continued

Tax Liability

- **Corporate income tax is imposed at three rates:**
 - **4.8% for net income of \$500,000 or less;**
 - **6.4% of net income between \$500,000 and \$1,000,000; and**
 - **7.6% of net income over \$1,000,000**
- **Rates are applied to the taxpayer's total net income, and that tax is prorated based on the taxpayer's total (business and non-business) New Mexico net income**
- **Credits reduce tax liability**
- **Corporate franchise tax also applies**
 - **Franchise tax is \$50 per year per corporation**
 - **Applies to all corporations subject to corporate income tax and to corporations not engaged in an active business but having or excising their corporate franchise in New Mexico**

Current Law in New Mexico – Continued

Tax Filing and Payment

- **Liability is paid in quarterly estimated payments and with the corporate income tax return**
- **Return is due on 15th of the third month following the end of the corporation's fiscal year**
 - **Automatic extensions are granted with federal extensions, and TRD can grant extensions**
- **Corporations with non-New Mexico income file special schedules to allocate and apportion their income**

Statistics on Corporate Income Tax Payments in 2005

- **The following two tables show New Mexico corporate income tax payments by size and filing method and by major industry and filing method**
- **The tables show that:**
 - **The largest corporate taxpayers (49 of the 19,875 filers, or 0.25%) paid most of the tax liability (\$234 million of \$331 million, or 71%)**
 - **Most corporations (12,431 or 63%) do not pay corporate income tax**
 - **Most filers (92%) use the SCE method, but combined and consolidated filers pay over 45% of the tax**
 - **The mining and manufacturing industries together pay over 60% of the tax**

New Mexico Corporate Income Tax Returns and Tax Payments by Filing Method and Size of Payments in 2005*

Size of Tax Payments	All Returns		Separate Entity		Combined		Consolidated	
	Number of Returns	Tax Payments (\$000)	Number of Returns	Tax Payments (\$000)	Number of Returns	Tax Payments (\$000)	Number of Returns	Tax Payments (\$000)
<i>Number and Amount</i>								
\$1,000,000 and Over	49	234,710	19	118,718	8	33,448	22	82,544
\$500,000 to \$1,000,000	30	22,129	13	9,963	9	6,147	8	6,019
\$250,000 to \$500,000	45	15,870	25	8,987	3	940	17	5,943
\$100,000 to \$250,000	130	20,677	82	12,965	12	2,005	36	5,707
\$50,000 to \$100,000	163	11,573	103	7,300	25	1,801	35	2,472
\$1,000 to \$50,000	3,230	24,545	2,891	19,919	97	1,622	242	3,004
\$0 to \$1,000	3,797	1,008	3,595	952	82	26	120	31
\$0	12,431	0	11,607	0	247	0	577	0
Totals	19,875	330,511	18,335	178,803	483	45,989	1,057	105,720
<i>Percentage Distribution of Number and Amount by Filing Method</i>								
\$1,000,000 and Over	0.25	71.01	0.10	66.40	1.66	72.73	2.08	78.08
\$500,000 to \$1,000,000	0.15	6.70	0.07	5.57	1.86	13.37	0.76	5.69
\$250,000 to \$500,000	0.23	4.80	0.14	5.03	0.62	2.04	1.61	5.62
\$100,000 to \$250,000	0.65	6.26	0.45	7.25	2.48	4.36	3.41	5.40
\$50,000 to \$100,000	0.82	3.50	0.56	4.08	5.18	3.92	3.31	2.34
\$1,000 to \$50,000	16.25	7.43	15.77	11.14	20.08	3.53	22.89	2.84
\$0 to \$1,000	19.10	0.31	19.61	0.53	16.98	0.06	11.35	0.03
\$0	62.55	0.00	63.31	0.00	51.14	0.00	54.59	0.00
Totals	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
<i>Percentage Distribution of Number and Amount by Size of Tax Payment</i>								
\$1,000,000 and Over	100.00	100.00	38.78	50.58	16.33	14.25	44.90	35.17
\$500,000 to \$1,000,000	100.00	100.00	43.33	45.02	30.00	27.78	26.67	27.20
\$250,000 to \$500,000	100.00	100.00	55.56	56.63	6.67	5.92	37.78	37.45
\$100,000 to \$250,000	100.00	100.00	63.08	62.70	9.23	9.69	27.69	27.60
\$50,000 to \$100,000	100.00	100.00	63.19	63.08	15.34	15.57	21.47	21.36
\$1,000 to \$50,000	100.00	100.00	89.50	81.15	3.00	6.61	7.49	12.24
\$0 to \$1,000	100.00	100.00	94.68	94.39	2.16	2.56	3.16	3.05
\$0	100.00	N/A	93.37	N/A	1.99	N/A	4.64	N/A
Totals	100.00	100.00	92.25	54.10	2.43	13.91	5.32	31.99

Taxation and Revenue Department
Tax Research and Statistics Office

August 27, 2007

* Tax payments are the total of estimated quarterly payments and payments with final returns for returns with fiscal years ending in 2005. Payments are before any business tax credits.

State Corporate Income Tax Returns and Tax Payments by Filing Method and Major Industry in 2005*

Major Industry**	All Returns		Separate Entity		Combined		Consolidated	
	Number of Returns	Tax Payments (\$000)	Number of Returns	Tax Payments (\$000)	Number of Returns	Tax Payments (\$000)	Number of Returns	Tax Payments (\$000)
<i>Number and Amount</i>								
Mining***	857	91,347	753	21,735	21	23,375	83	46,237
Manufacturing	1,569	117,180	1,389	97,962	63	3,441	117	15,776
Wholesale Trade	1,131	9,402	1,033	5,091	37	1,803	61	2,508
Retail Trade	1,548	11,739	1,436	7,065	36	1,092	76	3,581
Transportation and Warehousing	543	10,436	502	1,797	10	7,330	31	1,310
Finance and Insurance	1,713	11,083	1,581	8,636	52	243	80	2,204
Real Estate, Rental and Leasing	1,870	9,742	1,798	9,207	16	178	56	356
Management of Companies and Enterprises	588	31,693	391	2,195	52	4,007	145	25,491
All Other	10,056	37,890	9,452	25,114	196	4,520	408	8,256
Totals	19,875	330,511	18,335	178,803	483	45,989	1,057	105,720
<i>Percentage Distribution of Number and Amount by Filing Method</i>								
Mining***	4.31	27.64	4.11	12.16	4.35	50.83	7.85	43.74
Manufacturing	7.89	35.45	7.58	54.79	13.04	7.48	11.07	14.92
Wholesale Trade	5.69	2.84	5.63	2.85	7.66	3.92	5.77	2.37
Retail Trade	7.79	3.55	7.83	3.95	7.45	2.37	7.19	3.39
Transportation and Warehousing	2.73	3.16	2.74	1.01	2.07	15.94	2.93	1.24
Finance and Insurance	8.62	3.35	8.62	4.83	10.77	0.53	7.57	2.08
Real Estate, Rental and Leasing	9.41	2.95	9.81	5.15	3.31	0.39	5.30	0.34
Management of Companies and Enterprises	2.96	9.59	2.13	1.23	10.77	8.71	13.72	24.11
All Other	50.60	11.46	51.55	14.05	40.58	9.83	38.60	7.81
Totals	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
<i>Percentage Distribution of Number and Amount by Size of Tax Payment</i>								
Mining***	100.00	100.00	87.86	23.79	2.45	25.59	9.68	50.62
Manufacturing	100.00	100.00	88.53	83.60	4.02	2.94	7.46	13.46
Wholesale Trade	100.00	100.00	91.34	54.15	3.27	19.18	5.39	26.67
Retail Trade	100.00	100.00	92.76	60.19	2.33	9.30	4.91	30.51
Transportation and Warehousing	100.00	100.00	92.45	17.22	1.84	70.23	5.71	12.55
Finance and Insurance	100.00	100.00	92.29	77.92	3.04	2.19	4.67	19.88
Real Estate, Rental and Leasing	100.00	100.00	96.15	94.51	0.86	1.83	2.99	3.66
Management of Companies and Enterprises	100.00	100.00	66.50	6.93	8.84	12.64	24.66	80.43
All Other	100.00	100.00	93.99	66.28	1.95	11.93	4.06	21.79
Totals	100.00	100.00	92.25	54.10	2.43	13.91	5.32	31.99

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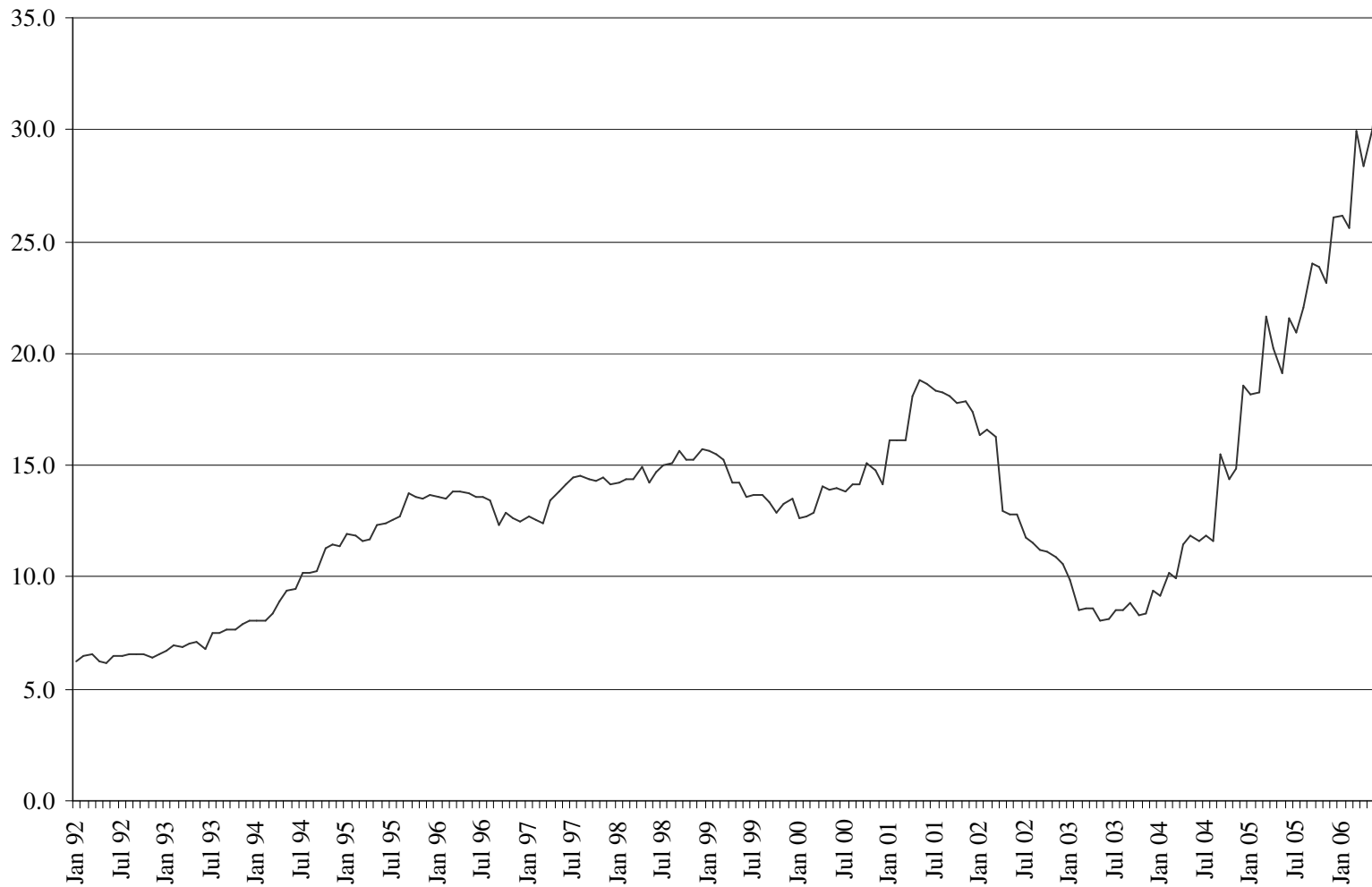
* Tax payments are the total of estimated quarterly payments and payments with final returns for returns with fiscal years ending in 2005. Payments are before any business tax credits.

** Industries as defined by the North American Industry Classification System (NAICS). "Major" industries are those with state corporate income tax payments in excess of \$7 million in 2005.

*** Firms engaged in oil and natural gas production-related activities are typically classified in mining, but may be classified in a number of other industries including transportation, retail trade, and professional, scientific and technical services.

\$Million

New Mexico Corporate Income Tax Revenues
12-Month Moving Average, January 1992 - June 2007



Current Law in Other States

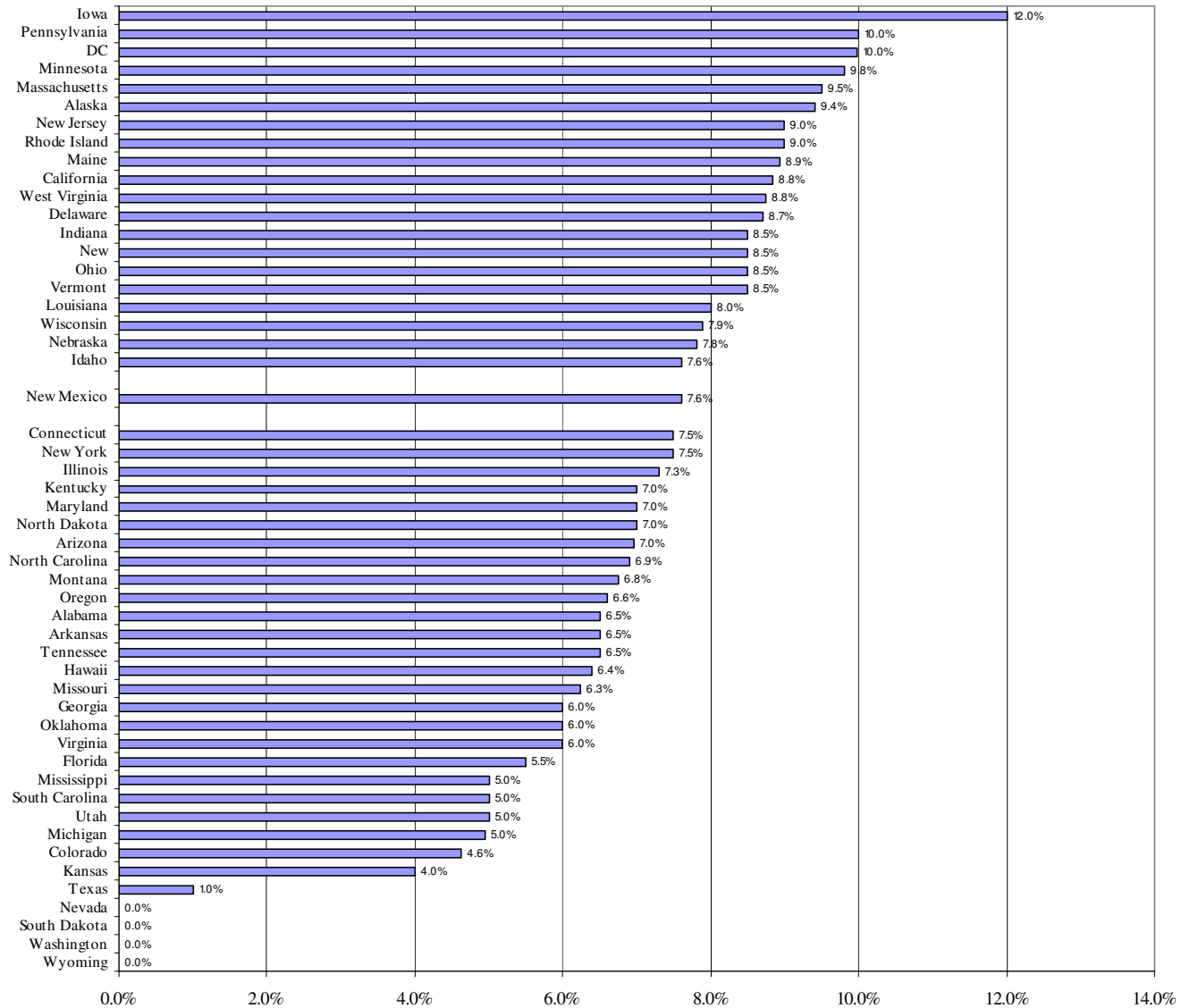
Tax Rates

- The following chart shows the top corporate income tax rate by state
 - New Mexico's top rate currently ranks 21st highest among the 50 states and DC
- More detail on states with multiple rates is shown in the table following the chart
 - New Mexico is one of the 15 states (of the 47 with a corporate income tax) that has more than one rate

Filing Methods

- The table shows state requirements or allowances of combined and consolidated filing methods
 - 17 states mandate combined and/or consolidated filing
 - New York and West Virginia adopted mandatory combined reporting in 2007
 - 20 states may require combined and/or consolidated filing in certain circumstances
 - 23 states may permit combined and/or consolidated filing in certain circumstances
 - 9 states (including New Mexico) allow taxpayers to elect combined and/or consolidated filing
- There is a great deal of variation across states in the rules defining combined and consolidated reporting

Top State Corporate Income Tax Rates



State Corporate Income Tax Rates and Reporting Methods

State	State Corporate Tax Rates			Combined and Consolidated Reporting				Authority to Reallocate Income & Expenses Among Related Parties	Alternative Minimum Tax	Franchise Tax Rate <4>
	Top Rate	If Multiple Rates: Lowest Rate	Number of Brackets							
Alabama	6.5						Consolidated	Yes		Max. of \$100 or graduated percentage of Net Worth
Alaska	9.4	1.0	10	Both				Yes	18% of Federal Alternative Minimum Tax ("AMT")	\$100
Arizona	6.968			Combined	Consolidated	Consolidated	Consolidated	Yes	Flat \$50	\$45
Arkansas	6.5	1.0	6			Consolidated		Yes		0.3% of Capital Stock
California	8.84			Combined	Combined	Combined	Combined	Yes	6.65% of Alternative Minimum Taxable Income ("AMTI")	8.84% of Taxable Income from business transacted in state
Colorado	4.63			Combined			Consolidated	Yes		
Connecticut	7.5					Consolidated	Combined	Yes	Greater of \$250 or .31% of Capital	
Delaware	8.7							Yes		Graduated amount based on authorized shares
District of Columbia	9.975				Consolidated				\$100	
Florida	5.5						Consolidated	Yes	3.3% of Florida AMTI	
Georgia	6.0				Consolidated	Consolidated		Yes		Graduated amount based on Net Worth
Hawaii	6.4	4.4	3		Both	Consolidated		Yes		
Idaho	7.6			Combined				No	Flat \$20	\$20
Illinois	7.3			Combined				Yes		0.1% of Paid-in Capital
Indiana	8.5				Both	Combined		Yes		
Iowa	12.0	6.0	4		Consolidated		Consolidated	Yes	7.2% of Iowa AMTI	
Kansas	4.0				Combined	Consolidated	Combined	No		
Kentucky	7.0	4.0	3	Consolidated				Yes	Lesser of .095% of gross receipts or .75% of gross profits	\$2.10 per \$1,000 of Total Capital
Louisiana	8.0	4.0	5		Both			Yes		\$3.00 per \$1,000 of Equity and Borrowed Capital
Maine	8.93	3.5	4	Combined				Yes	5.4% of Maine AMTI	
Maryland	7.0							Yes		
Massachusetts	9.5				Consolidated		Combined	Yes	Flat \$456	
Michigan	4.95				Consolidated	Consolidated		Yes		
Minnesota	9.8			Combined				Yes	5.8% of Minnesota AMTI	
Mississippi	5.0	3.0	3			Combined		Yes		\$2.50 per \$1,000 of Capital
Missouri	6.25					Consolidated		Yes		
Montana	6.75			Combined		Consolidated	Consolidated	No	Flat \$50	
Nebraska	7.81	5.58	2	Both				No		Graduated amount based on Capital
Nevada				----- No Corporate Income Tax -----						\$25 per Employee
New Hampshire	8.5			Combined				No		
New Jersey	9.0	6.5	3		Consolidated			Yes	\$500 plus Assessment at Graduated rates based on gross receipts or gross profits	

State Corporate Income Tax Rates and Reporting Methods -- Continued

State	State Corporate Tax Rates			Combined and Consolidated Reporting				Authority to Reallocate Income & Expenses Among Related Parties	Alternative Minimum Tax	Franchise Tax Rate <4>
	Top Rate	If Multiple Rates:								
		Lowest Rate	Number of Brackets	Mandatory	State May Require	State May Permit	Taxpayer May Elect			
New Mexico	7.6	4.8	3				Both	No		\$50
New York <1>	7.5			Combined				Yes	2.5% of minimum taxable base	
										0.15% of greater of (1) Capital, (2) Tangible Property or (3) 55% of Tangible Property plus Intangible property
North Carolina	6.9				Both			Yes		
North Dakota	7.0	2.6	5	Combined				No		
									\$50 or \$1,000 if gross receipts exceed \$5 million or employment exceeds 300	
Ohio	8.5	5.1	2		Combined	Combined		Yes		
						Consolidated	Consolidated	Yes		Fixed amount of Investment or Employment
Oklahoma	6.0									
Oregon	6.6			Consolidated				Yes	Flat \$10	
Pennsylvania	9.99							Yes		Percentage of Capital
Rhode Island	9.0							No	Flat \$500	Fixed dollar amount of Capital
										\$15 plus 1 mill per \$1 of Capital Stock and Surplus
South Carolina	5.0					Consolidated	Combined	No		
South Dakota	----- No Corporate Income Tax -----									
Tennessee	6.5				Both	Both		Yes		Fixed amount per dollar of Net Worth
Texas <2>	1.0	0.5	2	Combined				No		
Utah	5.0			Combined				No	Flat \$100	
Vermont	8.5	6.0	3	Combined			Consolidated	No	Flat \$250	
Virginia	6.0					Consolidated		Yes		
Washington	----- No Corporate Income Tax -----									
West Virginia <3>	8.75			Combined			Consolidated	No		Greater of \$50 or 0.7% of Capital
Wisconsin	7.9							Yes		
Wyoming	----- No Corporate Income Tax -----									Greater of \$50 or 0.02% of sum of Capital, Property and Assets

Taxation and Revenue Department
Office of Tax Policy

August 29, 2007

Sources: Federation of Tax Administrators; 2007 *Multistate Tax Guide*, CCH Inc.; Web sites of State Tax Departments.

Notes:

<1> New York Combined Reporting requirement is effective for tax years beginning January 1, 2007.

<2> Texas laws described are those effective beginning January 1, 2008.

<3> West Virginia's Combined Reporting requirement is effective for tax years beginning January 1, 2009.

<4> Excludes organizational and entrance fees and reporting fees.

Current Law in Other States – Continued

Minimum Taxes and Franchise Taxes

- **Most states impose some form of minimum tax or franchise tax based on some measure of activity in the state such as gross receipts or gross profits, or size, such as capital stock or the value of assets**
- **Such taxes help insure that large corporations pay some tax related to their presence in the state and the benefits they derive from that presence**

Authority to Allocate Income and Deductions Among Related Entities

- **Most state tax administrators have explicit statutory authority to allocate income and deductions among related entities to properly reflect income derived in the state**

Policy Issues

Proper Measurement of New Mexico Income

- **Current law may permit, or not provide the tools to combat, the understatement of New Mexico income**
 - **Passive investment companies (PICs), located in a low- or no-tax states, license intangible assets to an in-state company in exchange for royalty payments (deductible by the in-state company)**
 - **New Mexico successfully challenged such arrangements in the *K-Mart* case**
 - **A number of companies with similar arrangements have paid past taxes to New Mexico**
 - **Captive REITs own property in the state and charge (deductible) rent to the in-state company, but the REIT is not taxable and it is owned by a company in a low- or no-tax state so REIT dividends are subject to low or no tax**
 - **Contract manufacturing, sales and distribution companies are subsidiaries that perform certain functions for an affiliated group, but do not own intangibles so earn little of the group's profits**
 - **Note that in such arrangements, sales between related parties are at “arm's length”**
 - **Transfer (non-arm's length) pricing of transactions between related parties can transfer profits from high-tax to low-tax jurisdictions**
 - **The double-weighted sales factor allowed manufacturing companies reduces New Mexico source income whenever the sales factor is less than the property and payroll factors**
 - **Unclear or not fully specified rules tend to favor aggressive taxpayers**

Policy Issues -- Continued

Proper Measurement of New Mexico Income -- Continued

- **Conversely, current law may lead to an overstatement of New Mexico income**
 - **The “throwback” rules that source certain income and sales for apportionment purposes in New Mexico if they are not taxed where normally sourced**
 - **The disallowance of NOL carrybacks and the 5-year limit on carryforwards can increase income**
 - **In some circumstances, companies filing SCE may not plan well and can have losses, deductions, and credits trapped in an affiliated company**
- **Some companies may gain, and others may lose, from the current rules**
 - **A multi-state company may be able to use aggressive tax planning to minimize or even eliminate New Mexico income and corporate income tax**
 - **A company that operates only in New Mexico cannot shift income out of state**
 - **Local and multi-state companies can be affected by the rules that can overstate income**
 - **Any changes to the current rules could have quite different effects on particular companies, depending on the specifics of the changes and how any revenue gain is used**
 - **If any revenue gains are used to reduce corporate rates and reform rules that may overstate New Mexico income, it is possible that many corporations would benefit while some would pay more**
 - **Alternatively, few corporations are likely to benefit if any revenue gains are used in other ways**

Possible Approaches

Mandatory Combined Reporting

- **As shown in the table above, a number of states have mandated combined reporting, most recently New York and West Virginia**
- **Mandatory combined reporting, to be successful, requires the specification in statute or regulations of clear rules on what constitutes a unitary group and how the group must compute and pay tax**
 - **New Mexico's current combined reporting rules are permissive rather than mandatory, so have not been developed in much detail**

Mandatory Consolidated Reporting

- **Some states require consolidated reporting in some circumstances**
- **Federal consolidated rules are highly developed, so following them (as New Mexico currently does for electing corporations) does not require development of a new set of rules**
 - **In addition, IRS enforcement actions on consolidated returns generally flow through directly to the state return**
- **Corporations that could clearly demonstrate that federal consolidation would not lead to the proper measurement of New Mexico income could be allowed to file as an SCE**
- **Corporations that are not part of a federal consolidated group would file as SCEs**

Possible Approaches – Continued

Additional Tools to Combat Understatement of New Mexico Income

- **TRD could be given additional tools to combat the understatement of New Mexico income**
 - **These tools would be necessary even with mandatory combined or consolidated reporting**
- **Add-back and section 482-type rules are designed to reallocate income or deductions between related parties in order to properly reflect income in the state**
- **Corporations could be required to report transactions and arrangements with related parties**
- **The franchise tax could be increased or a minimum tax adopted for large corporations to insure that they pay at least some tax**
 - **This change would also help stabilize corporate tax revenues**
- **Some changes to the pass-through entity rules could also help combat income understatement**
 - **Trusts and estates could be brought under the pass-through rules, which would address the captive REIT issue and could improve compliance through withholding**

Reduce the Top Corporate Rate

- **Some of the revenue from other changes could be use to reduce the top corporate income tax rate**
 - **Policy considerations suggest that that the top rate should coincide with the top personal income tax rate, which is 4.9% beginning in 2008**

Possible Approaches – Continued

Remove the “Throwback” Rules and Adopt Federal NOL Rules

- **These rules may lead to overstatement of New Mexico income**
- **Some of the revenue from other changes could be used for these changes**

Other Possible Changes

- **Relax some rules that are viewed as onerous by business**
 - **New Mexico earns a “C” from COST for tax administration, largely because the due date for the state corporate income tax is the same time as the federal due date, and the protest period is only 30 days**
 - **Moving back the due date to 60 days after the federal return is due and increasing the period for filing a protest to 90 days would improve New Mexico’s COST score to an “A” with very little revenue loss**
- **Nexus determinations could be simplified by adopting formulary rules**
 - **The MTC is developing a set of formulary nexus rules**

Policy Criteria for Evaluating Alternatives

Economic Efficiency

- **Taxes reduce economic efficiency by distorting economic decisions**
- **The corporate income tax may distort decisions affecting:**
 - **The level of investment**
 - **The location of investment**
 - **Business structure**
- **These distortions generally increase with the level of tax rates and with rules that permit or require mis-measurement of income**
- **Reducing the top corporate income tax rate would improve economic efficiency**
- **Having clearer, more administrable rules that better measure New Mexico income would reduce distortions and the costs to firms of complying with the tax law**
 - **Such rules would also improve TRD's ability to administer the tax law**
- **Corporations derive benefits from the privilege of being in New Mexico, including access to New Mexico's markets, suppliers, and labor force**
 - **Failure to subject these benefits to a reasonable level of taxation means that other entities and activities must be subject to higher, more distortionary, taxes**

Adequacy

- **The corporate income tax is an important source of revenue for New Mexico that must be relied upon in the future to meet State funding needs**
- **Changes that improve the stability of corporate revenues would facilitate Budget decisions**